

Message Text

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TO SECSTATE WASH DC IMMEDIATE 5474

INFO USDEL RIYADH

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USDEL RIYADH PASS UNDER SECRETARY ROBINSON
BONN PASS ASSISTANT SECRETARY HARTMAN
PASS TREASURY FOR BENNETT, CEA FOR GREENSPAN

E.O.11652:GDS

TAGS: EGEN, OECD

SUBJECT: TOWARD A NEW CONCEPTUAL FRAMEWORK FOR U.S.
LEADERSHIP ON INTERNATIONAL ECONOMIC ISSUES

1. SUMMARY. LOOKING AHEAD TO THE IMPORTANT MEETINGS BETWEEN NOW AND MID-MARCH AT THE OECD, THIS MISSION HAS BEEN STRUCK FIRST BY THE FACT THAT VIRTUALLY EVERY MAJOR ASPECT OF THE PRESENT CRITICAL ECONOMIC CHALLENGE FACING THE INDUSTRIAL COUNTRIES WILL BE ADDRESSED HERE BY SENIOR OFFICIALS FROM WASHINGTON AND THEIR COUNTERPARTS FROM OECD CAPITALS AND, SECOND, BY THE UNPRECEDENTED INTERACTION OF THE SUBJECT MATTER OF THESE MEETINGS. WE HAVE BEEN IMPRESSED BY THE GALVANIZING IMPACT ON OTHERS OF THE THOROUGH AND WELL-COORDINATED US-LED APPROACH TO THE ENERGY PROBLEM IN THE IEA WHICH BASES AN ACTION-ORIENTED PROGRAM ON A COMPREHENSIVE AND CLOSELY-REASONED CONCEPTUAL STRATEGY. THIS EXAMPLE SUGGESTS THAT A SIMILARLY INCISIVE AND COMPREHENSIVE APPROACH SHOULD BE SOUGHT TO HELP BUILD MORE EFFECTIVE SOLIDARITY AMONG THE INDUSTRIAL DEMOCRACIES IN DEALING WITH THE KEY ECONOMIC ISSUES WHICH FACE US ALL. WE RECOMMEND THAT WE BEGIN NOW TO FOCUS ON THIS YEAR'S OECD MINISTERIAL AS AN EXCELLENT FORUM IN WHICH TO BRING FORTH A NEW, TIGHTLY-INTEGRATED CONCEPTUAL FRAMEWORK FOR DEALING WITH A BROAD RANGE OF INTERRELATED INTERNATIONAL ECONOMIC ISSUES. END SUMMARY.

2. PRESIDENT FORD AND SECRETARY KISSINGER HAVE TAKEN THE LEAD IN POINTING TO THE NECESSITY OF POLICY COORDINATION AMONG THE DEVELOPED COUNTRIES TO MEET THE PRESENT CRITICAL WORLD ECONOMIC SITUATION. HIGH-LEVEL U.S.

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OFFICIALS AND THEIR COUNTERPARTS FROM OTHER INDUSTRIALIZED COUNTRIES WILL BE ADDRESSING VIRTUALLY EVERY MAJOR ASPECT OF THIS COMPLEX AND UNPRECEDENTED CHALLENGE IN THE OECD DURING THE NEXT SIX WEEKS. U.S. LEADERSHIP IN DEALING WITH THE OIL CRISIS HAS BEEN THE DRIVING FORCE IN THE RECENT RESURGENCE OF OECD VITALITY. THE INTERDEPENDENCE BETWEEN THE ENERGY PROBLEM AND OTHER KEY ECONOMIC AREAS GIVES RISE TO THE NEED FOR THE USG TO

ASSERT COMPARABLE LEADERSHIP IN OECD DISCUSSIONS OF
TRADE, INVESTMENT, COMMODITIES AND DEVELOPMENT POLICIES
AS WELL AS IN MORE EFFECTIVE CONSULTATIONS ON DOMESTIC
ECONOMIC POLICY AND THE ADJUSTMENT PROCESS. WE BELIEVE
THAT WE NEED AN INTEGRATED CONCEPTUAL FRAMEWORK TO
ENHANCE OUR PROSPECTS OF SUCCESS IN ALL THESE AREAS.

3. FORGING SOLIDARITY ON ENERGY: IEA IS MAKING GOOD
PROGRESS ON IMMEDIATE ENERGY COORDINATION ISSUES, WITH
AGREEMENT ON FIRST-STAGE CONSERVATION COMMITMENT AND
THE LAUNCHING OF AN INTENSIVE EFFORT TO REACH AN AGREED
POLICY FOR THE DEVELOPMENT OF NEW ENERGY SOURCES
INCLUDING A GUARANTEE AGAINST THE DOWNSIDE RISK. OUR
CLEAR CONCEPT OF AN INTEGRATED STRATEGY FOR DEALING WITH
THE ENERGY PROBLEM IS DOMINATING THE THINKING OF
OTHER GOVERNMENTS, AND OUR LEADERSHIP HAS PROVIDED A
MOMENTUM WHICH WILL OVERCOME GRUMBLING AND INERTIA OF
SOME OF OUR PARTNERS IN FACING CRITICAL CHOICES. WE
HOPE FOR SATISFACTORY RESOLUTION OF THE MAJOR REMAINING
ISSUES BY THE IEA GOVERNING BOARD MEETING MARCH 6-7. AS
RECOGNIZED IN PRESIDENT FORD'S MESSAGES, THE ENERGY

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INFO USDEL RIYADH

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PROBLEM IS CLOSELY LINKED TO OTHER ASPECTS OF THE OVERALL ECONOMIC SITUATION AND OUTLOOK. THESE INTER-RELATIONSHIPS ARE INCREASINGLY PERCEIVED BY LEADERS OF OUR MAIN OECD PARTNERS, AS WITNESSED BY RECENT DISCUSSIONS IN THE GOVERNING BOARD, AND CALL FOR THE SAME KIND OF INTEGRATED CONCEPTUAL STRATEGY. THE INTER-RELATIONSHIPS INVOLVE THE ECONOMIC PROSPERITY AND DEFENSES OF THE INDUSTRIALIZED COUNTRIES AND THEIR RELATIONSHIPS WITH THE DEVELOPING COUNTRIES.

4. ONE INTERRELATED SET OF POLICY ISSUES AND OPTIONS INVOLVES MULTILATERAL EFFORTS AT DIAGNOSIS, PRESCRIPTION AND CURE DESIGNED TO PRESERVE AND STRENGTHEN THE ECONOMIC HEALTH OF THE WESTERN INDUSTRIALIZED COUNTRIES.

A. A KEY LINK IN THIS PROCESS IS THE CREATION OF A DEFENSE MECHANISM TO ASSURE THAT SMOOTH FINANCIAL RECYCLING WILL BE POSSIBLE THROUGH THE INDEPENDENT EFFORTS OF THE OECD COUNTRIES THEMSELVES. THIS WEEK

THE AD HOC GROUP ON RECYCLING HAS TURNED INTO THE HOME STRETCH OF ITS PREPARATION OF THE CRUCIAL \$25 BILLION SAFETY NET, AN EFFORT WHICH SHOULD BE READY FOR SIGNATURE AT THE BEGINNING OF MARCH. THE FUND IS CRITICAL TO OUR STRATEGY FOR DEALING WITH MONETARY, ECONOMIC AND POLITICAL CONSEQUENCES OF THE ENERGY PROBLEM AND IS LIKELY TO BE AN IMPORTANT ELEMENT IN THE LONGER RUN EVOLUTION OF MONETARY AND ECONOMIC POLICY COORDINATION. FOR EXAMPLE, THE INSTITUTIONAL CONSEQUENCES OF THIS NEW ARRANGEMENT, ESPECIALLY THE RESTRICTED MANAGING BOARD, MAY PROVE A USEFUL INNOVATION MUCH THE SAME WAY THAT G-10 EMERGED FROM THE GENERAL ARRANGEMENTS TO BORROW.

B. ANOTHER VITAL CONCERN OF THE OECD COUNTRIES IS TO SHORE UP DEFENSES AGAINST THE BEGGAR-THY-NEIGHBOR POLICY
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OF THE 1930'S TYPE. ESTABLISHMENT OF A CREDIBLE AND USEABLE FINANCIAL SAFETY NET SHOULD EASE THE FEARS OF COUNTRIES WITH WEAK PAYMENTS POSITIONS THAT THEY MAY BEAR AN UNFAIR SHARE OF THE BURDEN OF LIVING UP TO TRADE PLEDGE, WHICH EXPIRES MAY 30. THE QUESTION OF RENEWAL AND POSSIBLE STRENGTHENING OF THE TRADE PLEDGE WILL COME UP IN TRADE COMMITTEE ON MARCH 4-5 AND THE SENIOR LEVEL EXECUTIVE COMMITTEE IN SPECIAL SESSION (XCSS) ON MARCH 11-12. SOME MAY WANT MORE PRONOUNCED EXHORTATION TO SURPLUS COUNTRIES SUCH AS FRG TO REDUCE SURPLUSES AND REFLATE ECONOMIES - A TOPIC FOR WORKING PARTY 3 AND THE ECONOMIC POLICY COMMITTEE. WE EXPECT THAT IN THE FORTHCOMING TALKS HERE TO RENEW THE TRADE PLEDGE EVEN IN ITS PRESENT FORM, WHICH MAY BE THE MOST WE CAN HOPE FOR, SOME COUNTRIES SUCH AS THE UK WILL REFLECT STRONG DOMESTIC PRESSURES TO TAKE TRADE RESTRICTIVE MEASURES IN SPECIFIC SECTORS, A PRACTICE THAT MAY SPREAD THE BEGGAR-THY-NEIGHBOR APPROACH. IT WILL BE IMPORTANT, THEREFORE, TO CONSIDER MEANS TO IMPROVE INTERNATIONAL COOPERATION ON SECTORAL ADJUSTMENT PROBLEMS AS WE DISCUSSED IN OUR OECD 03454 RELATED TO THE AUSTRALIAN ACTION ON MOTOR VEHICLES. WE HOPE THE XCSS BUREAU ON FEB 20 CAN BEGIN A USEFUL DISCUSSION OF THIS PROBLEM.

C. NEITHER THE SOLIDARITY FUND NOR THE TRADE PLEDGE WILL SUFFICE UNLESS THE OECD COUNTRIES SUCCEED IN SOLVING THE BASIC MACRO-ECONOMIC PROBLEMS OF THE DAY AND ADOPT -- IN TIME -- THE POLICIES OF ADAPTATION AND ADJUSTMENT WHICH CHANGES IN ECONOMIC CONDITIONS REQUIRE. CHAIRMAN GREENSPAN AND HIS COUNTERPARTS AT THE MARCH 6-7 EPC MEETING WILL EXAMINE ECONOMIC TRENDS AND

POLICIES IN OECD COUNTRIES IN THIS STORMY PERIOD,
ASSESS THEIR INTER-ACTIONS AND SEEK WAYS TO STEER OUR
ECONOMIES THROUGH THE CRISIS OF INFLATION AND RECESSION.
SOLIDARITY AMONG INDUSTRIAL DEMOCRACIES IN ALL THESE
FIELDS WILL LARGELY DEPEND ON THE MUTUAL UNDERSTANDINGS

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ON ECONOMIC POLICY DIRECTIONS THAT HOPEFULLY WILL BE THE PRODUCT OF THESE AND FUTURE INTERCHANGES. MUCH OF THE FOCUS OF THE MARCH MEETING WILL QUITE CLEARLY BE ON THE MACRO-ECONOMIC EFFECTS AND PROSPECTS OF PRESIDENT FORD'S ECONOMIC AND ENERGY PROGRAMS AND THEIR IMPACT ON THE FUTURE ECONOMIC DIRECTION OF THE OECD AREA AS A WHOLE. AN IMPORTANT ASPECT OF THESE DISCUSSIONS WILL UNDOUBTEDLY BE THE IMPACT OF THE ENERGY PROGRAMS OF THE US AND OTHER OECD COUNTRIES ON THE PLANS FOR EXPANSION AND THE FIGHT AGAINST INFLATION OF THE AREA AS A WHOLE. A RELATED EFFORT WILL BE UNDERTAKEN BY WP-3 ON MARCH 5, WITH THE PARTICIPATION OF UNDER SECRETARY OF THE TREASURY JACK BENNETT. WP-3 WILL TAKE THE MEASURE OF THE CURRENT AND PROSPECTIVE BALANCE OF PAYMENTS AND ADJUSTMENT PROBLEMS, PARTICULARLY AS THESE ARE INFLUENCED BY THE CONTINUING REPERCUSSIONS OF THE RISE IN OIL PRICES AND THE CONSEQUENT SHIFT OF FINANCIAL RESOURCES INTO THE HANDS OF THE OIL PRODUCERS. AND THE DEFICIT COUNTRIES MOST LOATH TO RENEW THE TRADE PLEDGE WILL LOOK TO BOTH FORUMS FOR PUTTING PRESSURE ON THE STRONG COUNTRIES TO ADJUST THEIR POLICIES.

D. RELEVANT TO BOTH THE BROAD PROBLEM OF PETRO DOLLAR RECYCLING AND THE PREPARATIONS FOR THE PRODUCER/CONSUMER DIALOGUE, IS THE ISSUE OF THE TREATMENT OF OPEC INVESTMENT BY THE OECD COUNTRIES. THIS WILL BE CONSIDERED BY THE NEW OECD INVESTMENT COMMITTEE WHICH WILL MEET ON MARCH 3-4 AFTER A PRELIMINARY DISCUSSION BY THE XCSS RESTRICTED "BUREAU" ON FEB. 20. ANOTHER RELATED PART OF THE OPEC INVESTMENT QUESTION INVOLVING CONSIDERATION OF THE POSSIBLE CREATION OF SPECIAL NEW INVESTMENT VEHICLES, WILL PROBABLY BE ASSIGNED TO A "MARK II" VAN YPERSELE GROUP, AFTER IT HAS COMPLETED ITS WORK ON THE \$25 BILLION SOLIDARITY FUND.

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5. RELATIONS WITH THE LDC'S: IN ADDITION TO THE ISSUES CRUCIAL TO DEFENDING THE ECONOMIC EQUILIBRIUM OF THE INDUSTRIALIZED COUNTRIES DISCUSSED ABOVE, WE ARE FACED IN NEWLY-ACUTE FORM WITH THE PERENNIAL QUESTIONS OF OUR RELATIONS WITH THE DEVELOPING COUNTRIES.

(A) SLOWDOWN IN INDUSTRIALIZED COUNTRY ECONOMIC ACTIVITY EXACERBATES DIFFICULTIES AND UNCERTAINTIES FOR LDC'S CAUSED BY HIGH OIL PRICES AND THE EXTREME FLUCTUATIONS OF PRICES OF OTHER COMMODITIES OF WHICH LDC'S ARE BOTH IMPORTERS AND EXPORTERS. THE LINK BETWEEN OIL AND OTHER COMMODITIES BEING PUSHED (APPARENTLY WITH SOME SUCCESS) BY THE ALGERIANS AND OTHER INFLUENTIAL LDC'S MEANS THAT COORDINATED INDUSTRIAL COUNTRIES' RESPONSE HAS ASSUMED NEW AND GREATER IMPORTANCE. TIME IS RIPE FOR OECD COUNTRIES TO MOVE FROM THEIR TRADITIONAL BASICALLY DEFENSIVE POSTURE ON COMMODITIES TO A MORE POSITIVE AND PERHAPS INNOVATIVE APPROACH, BOTH TO SERVE OUR INTERESTS IN AVOIDING ECONOMIC DISRUPTION RESULTING FROM BOOM-AND-BUST COMMODITY CYCLES AND TO DEFUSE COMMODITIES AS A RALLYING POINT FOR OIL AND NON-OIL LDC'S IN PRODUCER/CONSUMER DIALOGUE FOR OIL. AS WE REPORTED IN OECD 02812, OECD SEC GEN VAN LENNEP HAS URGED US TO CONSIDER DEVELOPING AN ACTION PROGRAM TO PUT A FLOOR UNDER THE PRESENT BUST IN THE COMMODITIES MARKETS IN OUR OWN ECONOMIC INTEREST AS WELL AS FOR THE POLITICAL REASONS RELATED TO THE DIALOGUE WITH LDC'S. U.S. LEADERSHIP WILL BE REQUIRED, AND WE HOPE U.S. WILL BE PREPARED TO OPEN DIALOGUE ON CONSTRUCTIVE APPROACH. WORK IN OECD CAN WELL PROCEED ON TWO TRACKS, WITH TRADE COMMITTEE ON MARCH 4-5 REVIEWING RESULTS OF UNCTAD COMMODITIES MEETING AND IMPLICATION FOR FUTURE COORDINATION WORK, WHILE XCSS ON MARCH 11-12 COULD DISCUSS IN BROADER POLITICAL-ECONOMIC FRAMEWORK INCLUDING RELATED INVESTMENT AND FINANCIAL ISSUES. THE IMPORTANT IMMEDIATE STEP IS FOR UNDER SECRETARY ROBINSON TO LAY OUT OUR THINKING ON THESE ISSUES WITH HIS OPPOSITE NUMBERS FROM THE MAIN OECD COUNTRIES ON FEBRUARY 20.

(B) AS LDC'S TAKE A MORE UNIFIED AND BETTER-ARTICULATED STANCE IN INTERNATIONAL FORA, COORDINATION OF

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INDUSTRIAL-COUNTRY POLICIES TOWARD LDC'S IN GENERAL BECOMES MORE IMPORTANT THAN EVER. THE MARCH 5-6 OECD AD HOC MEETING ON DEVELOPMENT WILL BE THE FIRST INDUSTRIALIZED COUNTRY CAUCUS ON A WIDE RANGE OF ISSUES WHICH WILL BE TREATED IN RAPID SUCCESSION AT UNCTAD, UNIDO, AND UNGA MEETINGS (ESPECIALLY THE 7TH SPECIAL SESSION IN SEPTEMBER) CULMINATING IN THE FOURTH UNCTAD CONFERENCE IN 1976. LDC PROPOSALS FOR ESTABLISHING A "NEW ECONOMIC ORDER" WILL BE THE KEY TOPICS OF DISCUSSION. AN ADEQUATE DC RESPONSE TO LDC CHALLENGES REQUIRES A SHIFT IN THE SPIRIT OF OECD COORDINATION EFFORTS FROM THE BASICALLY INEFFECTUAL LOWEST COMMON DENOMINATOR AGREEMENT ON HOW TO DEAL PROCEDURALLY WITH LDC CHALLENGES. U.S. LEADERSHIP WILL BE ESSENTIAL HERE AS IN OTHER FIELDS, AND WE WILL NEED CLOSE COORDINATION OF INDUSTRIALIZED-COUNTRY POSITIONS TO BE TAKEN IN OTHER OECD FORA WITH THE EFFORTS TO WORK OUT CONSTRUCTIVE POLICIES ON ENERGY, TRADE, AND INVESTMENT.

6. CONCLUSION: THE XCSS BUREAU MEETING FEB 20 AND HOPEFULLY THE OECD MINISTERIAL IN JUNE WILL OFFER AN OPPORTUNITY FOR THE USG TO BEGIN THE PROCESS OF "GETTING IT ALL TOGETHER", BOTH WITH OUR PRINCIPAL ECONOMIC PARTNERS AND ALLIES. WE RECOMMEND THAT UNDER SECRETARY ROBINSON USE THE XCSS BUREAU MEETING TO EXCHANGE VIEWS WITH KEY POLICY OFFICIALS FROM THE MAIN OECD COUNTRIES ON GREATER COORDINATION AND INTEGRATION OF VARIOUS OECD WORK PROGRAMS AND TO EXPLORE THE POTENTIAL FOR A MORE INTEGRATED CONCEPTION OF PURPOSES AND PRIORITIES BEHIND VARIOUS ACTIVITIES OF THE OECD. WE URGE THE DEPARTMENT TO BEGIN WORKING NOW ON THE DEVELOPMENT OF AN INTEGRATED APPROACH AND CONCEPTUAL STRATEGY TO THE BROADRANGE OF ISSUES WITH WHICH OECD COUNTRIES ARE SEIZED AND TO MAKE THIS

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